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C O N F I D E N T I A L BUENOS AIRES 001486

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TAGS: [ENRG](#) [ETRD](#) [ECON](#) [AR](#) [BL](#)
SUBJECT: MORALES IN ARGENTINA TO SIGN GAS, IMMIGRATION
ACCORDS

REF: A. BUENOS AIRES 1352

[1](#)B. BUENOS AIRES 1439

Classified By: Ambassador Lino Gutierrez for reasons 1.4 (b) and (d).

Summary

[1](#)1. (U) Bolivian President Evo Morales visited to Argentina on June 29 to sign agreements with President Kirchner on the price and volume of natural gas deliveries from Bolivia and agreements on immigration and bridge construction. Kirchner did not sign an agreement on coca leaf imports to Argentina. Under the natural gas accord, the price Argentina has agreed to pay will be USD 5 per million BTUs, an increase of 56 percent from the current price of USD 3.20 per million BTUs. Argentina will start paying the new price on July 15, but the price will be in effect only until the end of 2006. Before the end of the year, officials from both countries will need to establish a formula for determining the price of natural gas to take effect in 2007. The agreement also provides for an increase in the volume of deliveries from 4.5 million cubic meters per day to 27.7 million cubic meters per day. Bolivia has committed to delivering the increased daily volume for the next 20 years. State companies Enarsa and YPF-Bolivia will need to determine how to fund expansion of the Northeastern Argentina Pipeline (GNEA), which now has capacity for deliveries of only 7 million cubic meters per day. End Summary.

Morales Signs Natural Gas Agreement

[1](#)2. (U) Bolivian President Evo Morales visited Argentina on June 29 to sign an agreement with President Kirchner on the price and volume of natural gas deliveries from Bolivia. Negotiations on price had reached an impasse on June 12 in Bolivia when discussions between Argentina's Minister of Planning Julio De Vido and Bolivian Vice President Alvaro Garcia Linera failed to produce an agreement on the per unit price of natural gas imports (Reftel A). At that time, Bolivia sought USD 6 per million BTUs while Argentina offered to pay USD 5 per million BTUs. The June 29 agreement sets the price at USD 5 per million BTUs, which Argentina will begin paying on July 15. This price will only be in effect, however, until December 31. The agreement stipulates that, before the December 31 deadline, officials from both countries will define the formula for calculating the delivery price that will take effect in 2007. The formula is supposed to incorporate variations in the prices of other

liquefiable gases such as butane, ethane, and propane. When this formula is developed, officials from both countries will sign a new natural gas delivery contract.

¶3. (U) The natural gas agreement also increases the volume of deliveries. Argentina currently imports approximately 4.5 million cubic meters of Bolivian natural gas daily. The June 29 agreement increases the daily volume to 27.7 million cubic meters and prohibits selling the gas to third countries. Existing pipeline capacity, however, allows for the importation of only 7.7 million cubic meters per day. State energy companies Enarsa and YPF-Bolivia will determine the source and scope of funding for the Northeastern Argentina Pipeline (GNEA). Estimates on the completion of the GNEA range from two to three years with costs ranging from USD 800 million to USD 1.2 billion. Planning Minister De Vido announced at the June 29 signing ceremony that Argentina would be soliciting construction bids within the next 5 months.

Other Agreements

¶4. (C) Kirchner and Morales signed other agreements during the ceremony in the Buenos Aires Province city of Hurlingham, which is home to more than 20,000 Bolivians. Issues included in these other accords were immigration, the construction of a bridge connecting Salvador Mazza in Salta Province with Yacuiba in Bolivia, the creation of a common missing children database, labor, and public investment. Neither Kirchner nor Morales made any mention of an agreement on importation of coca leaves into Argentina. (Comment: The head of Argentina's Drug Prevention Secretariat (SEDONAR) Dr. Jose

Granero has told the DCM that Kirchner opposes legalization as well as importation of coca leaves from Bolivia. See Reftel B. End Comment.)

Comment

¶5. (C) Kirchner and Morales were quite measured in their public comments at the signing ceremony. Kirchner appeared to have taken on the mantle of regional integrationist, and Morales refrained from agitating against the U.S. Deputy Foreign Minister Roberto Garcia Moritan told the Ambassador that Kirchner had specifically asked Morales to temper his remarks.

¶6. (C) The conclusion of the natural gas agreement represents only the beginning of the GOA's energy problem-solving. Projections of GNEA expansion costs and recuperation have relied heavily on a "solidarity" price for Bolivian natural gas since the Kirchner administration first announced the project in late 2003. Domestic natural gas prices and the export prices that Chile and Uruguay face are fixed at very low rates. The terms of the June 29 agreement with Bolivia, however, require the GOA to pay more than the solidarity price, which means that the GOA will need to allocate the difference in costs to those in the distribution and consumption chain. How they will do this without allowing costs to be passed on to consumers, and thus increasing inflation, is not clear. End Comment.

¶7. (U) To see more Buenos Aires reporting, visit our classified website at:
<http://www.state.sgov.gov/p/wha/buenosaires>.< /a>
GUTIERREZ